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Exporter Guide

Annual

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Report Highlights:

The Philippines continues to be our most important market in Southeast Asia and in 2000 became the 12th largest importer of American food and agricultural products. U.S. exports of agricultural, fish and forestry products reached a record of \$946 million. Real GDP rose 3.9 percent in 2000 despite economic and political unrest in the last quarter and is projected at 3.0 percent for 2001.

Filipino consumers have a strong affinity and a distinct preference for American products. Philippine food regulations and labeling requirements are patterned after the US Food and Drug Administration standards which make entry of American products relatively easy. The retail and food service sectors are experiencing tremendous growth and change because of a combination of demographics, political and economic developments, multilateral trade agreements and evolving consumer preferences and sophistication.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Manila [RP1], RP

Section I. Market Overview

General Market Overview. The Philippines continues to be our most important market in Southeast Asia and in 2000 moved up to be the 12th largest importer of American agricultural products. Total U.S. agricultural, fishery and forestry product exports to the Philippines amounting to \$946 million in 2000 is now the highest level on record and accounts for over one-third of the \$2.85 billion U.S. exports to the ASEAN region.

It is important to note that U.S. exports of consumer-oriented products posted a slight gain over 1999 at \$219 million dollars which is close to reaching the highest record level set in 1997. Likewise, U.S. exports of fish and seafood products in 2000 is now the record level at \$14.5 million representing a 150 percent increase over 1999 exports.

In 1998, the Philippine economy deteriorated as a result of the Asian financial crisis and a contraction in agriculture production caused by the El Nino induced drought. Real GDP growth fell by -0.5 percent in 1998 from 5 percent in 1997, but recovered to 3.3 percent in 1999. Economic and political unrest during the last quarter of 2000, caused the Peso to plummet. Year 2000 posted an average exchange rate of \$1 to Pesos 44 vs. Year 1999 exchange rate of \$1 to Pesos 39. Current exchange rate is US\$1 to Pesos 51. This weakness of the Peso will result in lower imports from the U.S. in 2001. The year still ended with a gain in real GDP vs. the previous year of 3.9 percent. Real GDP growth for Year 2001 is projected at 3.0 percent. Hopefully, the new government will implement its economic reforms to put the Philippines in line with the pace of development among the newly industrialized counties of East Asia. The economic strategy includes improvement in infrastructure, re-structuring of the tax system to increase government revenues, further deregulation and privatization of the economy, and increase in trade integration within the region.

Market Characteristics

- < Filipino consumers have a strong affinity and distinct preference for American products. American culture and lifestyle is nowhere more evident and emulated in Asia than in the Philippines because of the long-standing relations between the two countries.
- < American products are highly regarded for their high quality and product consistency. Having said that, Filipinos are brand conscious but price sensitive at the same time. Popular American brands can afford a minimal price premium versus competing products from third country suppliers.
- < About 80 percent of imported products in Philippine supermarkets are American products and/or brands; the variety and range of American product lines are similar to those available in the US. Local stores are becoming more sophisticated; most of which now compare to US/western stores.

- < Practically all Filipinos have families in the United States who regularly send or bring home food gifts which has become the initial yet very effective way of introducing American products to Filipino consumers.
- < There are a lot of Filipino overseas workers who are an essential source of much-needed foreign exchange and an important stabilizing factor in terms of consumer purchasing power particularly in times of foreign exchange difficulties.
- < Filipinos are known to eat about five times a day and have a propensity for munching in between and on top of those meals.
- < It is estimated that mid-to-upper income consumers who are the constant market for imported food products account for 15-20 percent of the 76.5 million population or about 15 million. An additional 10 percent are occasional consumers of imported goods.
- < Consumption of imported food products peak during the Christmas season when sales reach as much as three times the normal levels.
- < Most metropolitan homes have refrigerators with a small built-in freezer; ownership of microwave ovens have also been steadily increasing. As in other household durables, microwave sales were particularly doing well immediately before the regional crisis. These developments bode well for refrigerated food products, although inefficiencies in the cold-chain system are putting premiums on prices of chilled and frozen goods.

Advantages	Challenges
Filipinos have high regard for imported products, especially American.	U.S. products are priced higher compared to local products and even third country suppliers.
Familiarity with major American brands.	Consumers are brand conscious but highly price sensitive.
Traditional close ties between Filipinos and the U.S.	Preferential tariff rates (35 percent discount on MFN rates) on products from ASEAN member countries.
No need for special product labeling; English labels accepted.	Market penetration for imported products is concentrated in Metro Manila and major metropolitan cities.
Philippine food standards follow US Food and Drug Administration regulations.	Insufficient cold chain system; almost non-existent beyond Metro Manila.

Proliferation of malls and accompanying rapid expansion in the retail and fast-food sectors especially American franchises that require American food products.	Establishment of Asian manufacturing facilities for American brands to supply the region.
Retail trade liberalization which finally allows foreign, hopefully American, retailers to operate in the Philippines.	Packaging should be able to withstand extreme heat and humidity.
Reduced import duties and targeted uniform tariff rate of 5 percent by 2004.	Package sizes tend to be smaller for affordability.
Rapidly growing population versus limited agricultural resources.	Underdeveloped infrastructure, i.e., storage, roads and shipping facilities.
Lowered import tariffs which encourage direct shipments from US to the Philippines.	

Section II. Exporter Business Tips

- < Filipino businessmen value interpersonal relations above anything. Such relations lend ease in developing trust between potential business partners. US exporters should maintain a conscious sensitivity to the innate Filipino sense of reciprocity.
- < US exporters should maintain close contact and make regular visits to the Philippines to stay abreast of developments and to affirm support to the Philippine agent/distributor and customers. Exporters should commit to provide marketing and promotional efforts, including advertisements.
- < Food importation is generally done by traders, some of whom maintain buying offices on the US West coast. The services of a U.S. consolidator or wholesaler are commonly used because of the need for a wide variety and range of products. The Philippine importer then either distributes directly to retailers and food service entities or through local wholesalers.
- < US exporters can work with one or several importers. It is to be noted, though, that exclusive distributorship agreements are difficult to enforce in the Philippines while parallel imports are common.
- < There are no non-tariff restrictions on imports of agricultural and food products, except on rice. Import permits are required for shipments of fresh fruits and vegetables, meat and poultry, including processed meat products.
- < All food products must be registered with the Philippine Bureau of Food and Drug. Imported products may be registered only by a Filipino entity.
- < Philippine food regulations and standards generally follow the U.S. Food and Drug

Administration. Products from the United States do not require special labeling and may be sold in the Philippines in the same commercial packaging.

- < The Philippines unilaterally implemented a tariff reduction scheme. Tariff rates for most consumer oriented products now range from 3-15 percent. Agricultural products considered "sensitive" and for which minimum access volumes (MAV) were set, however, have significantly higher tariff rates. These include poultry meat, pork, fresh potatoes and coffee. MAV allocations which enjoy discounted tariffs are awarded to Philippine companies on an annual basis. Please contact the Office of Agricultural Affairs (OAA) for a complete list of these "sensitive products" and the corresponding tariff rates. The OAA also maintains a list of Philippine companies who have MAV allocations.
- < Filipino consumers prefer "sweet" foods, even for processed meat products, sauces and juices. Exporters should be willing to reformulate their products to suit the local tastes. Filipino consumers have a preference for cheese and barbecue food flavors.
- < Products should be packed sufficiently to withstand extreme heat and humidity. Products for the Philippines should also preferably be in smaller consumer packs for affordability. Deficiencies in systematic and mechanical handling of products should also be taken into consideration. There are inefficiencies in the cold chain system, particularly beyond Metro Manila where in some cases these facilities range from insufficient to non-existent.
- < US exporters are advised to require payment of goods via letter of credit especially for the initial transactions. Credit terms may be extended to the importer after a thorough background and credit investigation has been conducted and payment habits have been established.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

The retail and food service sectors are experiencing tremendous growth and change because of a combination of demographics, political and economic developments, multilateral trade agreements and, evolving consumer preferences and sophistication.

- < The Philippines has one of the highest population growth rates at 2.3 percent annually. This poses an enormous challenge of keeping up with food demands amidst limited, in some cases declining, resources and infrastructural deficiencies particularly in post-harvest facilities, storage and farm to market distribution network.
- < The current administration has placed emphasis on "food security" rather than "self sufficiency". This has provided a more friendly environment for imports and a welcome development from prior administrations' protectionist agricultural policies.
- < Purchasing power is largely strengthened by double-income households, especially in urban areas. The increasing incidence of women entering the workforce coupled by the decreasing

availability of household helpers is making dramatic changes in food consumption trends. This has greatly encouraged dining out, food delivery and purchases of convenient/ instant/ ready-to-cook or products that require the least preparation and clean up. Food preparation time is further diminished by a monstrous traffic situation that extends commuters time outside their homes.

- < More than two-thirds of the 76.5 million population are below 30 years of age who rely heavily on processed and ready to cook/eat food products and whose meals are increasingly taken out of the house; 40 percent of the population is comprised of the "MTV-generation" whose lifestyles are very Westernized due to extensive exposure to cable TV, foreign reading materials and the internet.
- < Improving purchasing power and increasing exposure to Western lifestyles are driving sophistication in consumer preferences and demand for high quality products.
- < There is a growing health awareness and consciousness among Filipino consumers. They are now more aware and tend to read labels, conscious about contents and nutritional information. There is an increasing interest in foods touting to be low in calories, cholesterol and reduced or sugar/salt/fat free.
- < Natural and organic foods are gaining prominence among high income consumers whose awareness for a " healthy lifestyle" arise from overseas travels, influences from family and friends, eco-friendly advocates and for therapeutic reasons.

Retail Sector:

- < The retail sector is seeing growth resulting largely from horizontal expansion corresponding to the continued proliferation of malls all over the country.
- < In addition, convenience outlets as well as 24-hour operations are sprouting in high consumer concentration locations like public transport stops and residential subdivisions.
- < The recent retail trade liberalization finally allows foreign retailers to operate in the Philippines. It is expected to infuse increased efficiency in the retail sector from which Filipino consumers stand to reap the most benefits. The arrival of foreign, particularly American, retailers will be a boon to U.S. food imports. S&R Price Membership Shopping (Price Club) opened 2 stores in 2001.
- < The ubiquitous "sari-sari" stores (small mom and pop neighborhood stores) still form an integral component of Philippine retailing industry. However, products available in these stores are limited to basic food provisions.
- < Traditional wet markets represent 80 percent of food purchases particularly for fresh produce and meat products. However, there has been a significant move to supermarket shopping because of food safety concerns and the convenience of one-stop shopping.

- < Supermarkets also act as wholesalers as they are the main suppliers of products to the sari-sari stores.
- < Local supermarket operations are becoming increasingly sophisticated, many now compare to US/western stores. Supermarket owners and key staff regularly attend international trade shows and training/seminars. They are keenly interested in educational programs and continually seek opportunities for improvement.

Food Service Sector:

- < As in the case of the retail sector, the food service industry, particularly fast-food and casual restaurants, is expanding whenever and wherever new malls are constructed and other strategic locations bordering schools, hospitals, commercial buildings and including residential areas.
- < The Philippines has a young population, ages 1-29 comprise about 64 percent of the total population, which heavily favors dining in fastfood and casual/family restaurants.
- < Major players in the food service industry are burger houses, pizza chains, chicken restaurants, Chinese/dimsum outlets and doughnut/coffee places. A local burger house continues to be the largest chain but American franchises are believed to dominate the fast-food and casual dining sector in the Philippines.
- < The American franchises which normally require standard or US-approved food ingredients have encouraged increased imports of food service products both in terms of volume and variety. Frozen french fries are the single most important product for this sector from the United States. There is a growing demand for frozen poultry products, sauces and condiments, fresh and processed fruits/vegetables, among others.
- < Industry studies indicate that the percent of food consumed outside of homes relative to total food consumption increased from 7 percent in 1988 to 12 percent in 1997. FAS/Manila, however, feels that the percentage of food eaten-out in the Metro-Manila area may be closer to 25-30 percent of total food consumption.
- < Advertising plays a major role in capturing market share in the food service sector. Eat-all-you-can or buffet offerings and promotions including discounted set meals and premiums like toys effectively provide customers with a sense of obtaining "value for their money" in a fiercely competitive market.
- < The range of products or menu offered is also very important. The menu should include items catering to unique Filipino culinary preferences. Even foreign franchises have to adjust both by including new menu items and in reformulating standard dishes to suit Filipino tastes.

- < Higher consumer standards and concern for food safety are driving Filipinos toward dining in restaurants and away from traditional food hawkers.

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

The best products list and the rates of increase in 2000 exports over 1999 include:

- T wine and beer (56%)
- T dairy products (53%)
- T pet foods (36%)
- T poultry meat
- T fruit & vegetable juices
- T snack foods
- T breakfast cereals and pancake mixes
- T fresh fruits
- T red meats, prepared/preserved
- T red meats, fresh/chilled/frozen
- T chocolate candies and confectionery
- T frozen french fries
- T canned fruits and vegetables
- T sauces, dressings and condiments
- T processed meat products, including hotdogs, nuggets, etc.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Please contact the following for any questions and for further information:

Office of Agricultural Affairs
American Embassy
25/F Ayala Life-FGU Building
6811 Ayala Avenue
Makati City 1203
Tel: (632) 887-1137 /53
Fax: (632) 887-1268
Email: AgManila@fas.usda.gov
FAS Home Page: (<http://www.fas.usda.gov>).

Synergy Asia Marketing Services, Inc.
(Philippine representative for Washington Apple Commission and the California Table Grape Commission)
Unit 602-C, Summit Office Tower

530 Shaw Boulevard
Mandaluyong City 1501
Metro Manila
Tel: (632) 534-8534; 534-8221; 534-8223
Fax: (632) 534-8234
Contact: Mr. Mandy Saracho, Managing Director
Email: mandys@synergyasia.com

D. Richmond & Associates, Inc.
(ASEAN Representative for Western United States Agricultural Trade Association, Mid-America International Agri-Trade Council, Food Export USA-Northeast and the Southern United States Trade Association)
70-A Prinsep Street
Singapore 188662
Tel: (65) 338-3812
Fax: (65) 338-3813
Contact: Ms. Dee Richmond
Email: drfood@pacific.net.sg

Lieu Marketing Associates
(ASEAN Representative for California Pistachio Commission, California Table Grape Commission, California Tree Fruit Agreement, Florida Department of Citrus, Pear Bureau Northwest, Raisin Administrative Committee, United States Potato Board and Wine Institute of California)
Block 138 Alexandra Road
Unit 01-221, Singapore 150138
Tel: (65) 472-3283
Fax: (65) 472-6372
Contact: Richard Lieu
Email: gabaric@singnet.com.sg

Pacrim Associates Ltd.
(ASEAN Representative for US Dairy Export Council)
The Regent Hotel
155 Rajadamri Road
Bangkok 10330, Thailand
Tel: (662) 251-6127
Fax: (662) 254-6913
Contact: Mr. Dan Fitzgerald, ASEAN Representative

USA Poultry and Egg Export Council
#15-04 Liat Towers, 541 Orchard Road
Singapore 238881
Tel: (65) 737-1726
Fax: (65) 737-1727

Contact: Ms. Margaret Say, ASEAN Representative
Email: usapeec_sing@pacific.net.sg

US Meat Export Federation
#15-03 Liat Towers, 541 Orchard Road
Singapore 238881
Tel: (65) 733-4255
Fax: (65) 732-1977
Contact: Mr. Eric Choon, ASEAN Representative
Email: echoon@usmef.com.sg

Philippine Association of Supermarkets
Rm 311, Mariwasa Building
Aurora Boulevard, Cubao
Quezon City, Philippines
Tel: (632) 363-4563
Fax: (632) 456-3855
Contact: Mr. Jose Albert, President

Meat Importers and Traders Association
91-95 Panay Avenue
Quezon City, Philippines
Tel: (632) 372-3944; 372-3237 to 39
Fax: (632) 372-3253
Contact: Mr. Jesus Cham, President

Hotel and Restaurant Association of the Philippines
Rm. 205, Regina Building, Aguirre Street
Legaspi Village, Makati City
Tel: (632) 892-6981; 815-4659
Fax: (632) 892-0277; 815-4663
Contact: Ms. Elizabeth dela Fuente, Executive Director

Philippine Food Processors and Exporters Organization
Room 304, JS Contractor Building
423 Magallanes St., Intramuros
Manila, Philippines
Tel: (632) 527-5810 to 11
Contact: Mr. Jesus T. Tanchangco, Sr., President

Philippine Association of Meat Processors, Inc.
Suite 204, Sunrise Condominium
Ortigas Avenue, Greenhills
San Juan, Metro Manila
Philippines
Tel: (632) 722-4026

Fax: (632) 721-2385

Contact: Mr. Felix O. Tiukinhoy, President

APPENDIX I. STATISTICS

A. KEY TRADE & DEMOGRAPHIC INFORMATION

Agricultural Imports From All Countries (\$mil)/U.S. Market Share (%) ^{1/}	\$3,052 / 27%
Consumer Food Imports From All Countries (\$mil)/U.S. Market Share (%) ^{1/}	\$775 / 18%
Edible Fishery Imports From All Countries (\$Mil)/U.S. Market Share (%) ^{1/}	\$67 / 4%
Total Population (Millions)/Annual Growth Rate (%)	76.5 / 2.3%
Urban Population (Millions)/Annual Growth Rate (%)	35.8 / 2.5%
Number of Major Metropolitan Areas ^{2/}	17
Size of the Middle Class (Millions)/Growth Rate (%) ^{3/}	64.6 / 6.7%
Per Capita Gross Domestic Product (U.S. Dollars)	\$983
Unemployment Rate (%)	11.4%
Per Capita Food Expenditures (U.S. Dollars)	\$429
Percent of Female Population Employed ^{4/}	38%
Exchange Rate (US\$1 = 44.00 local currency) ^{5/}	Pesos 44.00

Footnotes*1/ Use FAS' web-enabled UNTrade database (HS 6-digit option; Import Market Share BICO 3-Year format)**2/ Population in excess of 1,000,000**3/ Middle class includes those earning above the poverty threshold of Pesos 12,000 (\$300) but does not include 5 percent of the population which are considered upper income class.**4/ Percent against total number of women (15 years old or above)**5/ Year 2000 average/ Year 1999 average: US\$1=39 Pesos/ Current Exchange Rate: US\$1=51 Pesos*

TABLE B. CONSUMER FOOD & EDIBLE FISHERY PRODUCT IMPORTS

Philippines Imports (In Millions of Dollars)	Imports from the World			Imports from the U.S.			U.S. Market Share		
	1996	1997	1998	1996	1997	1998	1996	1997	1998
CONSUMER-ORIENTED AG TOTAL	931	NA	775	161	NA	138	17	0	18
Snack Foods (Excl. Nuts)	33	NA	24	8	NA	7	23	0	28
Breakfast Cereals & Pancake Mix	6	NA	4	3	NA	2	43	0	43
Red Meats, Fresh/Chilled/Frozen	97	NA	86	6	NA	4	6	0	4
Red Meats, Prepared/Preserved	11	NA	11	3	NA	3	28	0	26
Poultry Meat	2	NA	5	1	NA	3	39	0	59
Dairy Products (Excl. Cheese)	376	NA	287	20	NA	15	5	0	5
Cheese	35	NA	32	1	NA	1	2	0	4
Eggs & Products	2	NA	3	1	NA	1	47	0	27
Fresh Fruit	61	NA	39	27	NA	12	44	0	30
Fresh Vegetables	3	NA	8	1	NA	1	4	0	5
Processed Fruit & Vegetables	61	NA	60	33	NA	31	54	0	53
Fruit & Vegetable Juices	8	NA	8	1	NA	3	18	0	36
Tree Nuts	2	NA	2	1	NA	1	50	0	48
Wine & Beer	7	NA	6	1	NA	1	16	0	15
Nursery Products & Cut Flowers	2	NA	1	1	NA	1	10	0	2
Pet Foods (Dog & Cat Food)	5	NA	3	5	NA	3	93	0	87
Other Consumer-Oriented Products	221	NA	198	51	NA	52	23	0	26
FISH & SEAFOOD PRODUCTS	83	NA	67	6	NA	3	8	0	4
Salmon	1	NA	1	1	NA	1	17	0	3
Surimi	1	NA	1	1	NA	1	1	0	3
Crustaceans	2	NA	1	1	NA	1	69	0	6
Groundfish & Flatfish	3	NA	2	1	NA	1	4	0	10
Molluscs	3	NA	2	2	NA	1	68	0	33
Other Fishery Products	75	NA	61	3	NA	2	4	0	3
AGRICULTURAL PRODUCTS TOTAL	2,906	NA	2,806	864	NA	763	30	0	27
AG, FISH & FORESTRY TOTAL	3,360	NA	3,052	932	NA	795	28	0	26

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

TABLE C. TOP 15 SUPPLIERS OF CONSUMER FOODS & EDIBLE

Philippine Imports

CONSUMER-ORIENTED AG TOTAL (\$1,000)

	1996	1997	1998
Australia	245,961	0	184,983
United States	160,776	0	138,015
New Zealand	100,352	0	111,533
China (Peoples Rep)	27,743	0	51,960
Netherlands	89,938	0	50,543
Singapore	40,118	0	32,478
India	35,613	0	30,742
France	17,611	0	19,655
Hong Kong	22,416	0	18,207
Thailand	22,293	0	16,007
Germany	10,550	0	15,832
Canada	13,179	0	13,215
Switzerland	5,669	0	9,841
Indonesia	16,687	0	9,257
United Kingdom	18,076	0	8,668
Other	103,966	0	63,871
World	930,965	0	774,814

FISH & SEAFOOD PRODUCTS (\$1,000)

	1996	1997	1998
Taiwan (Estimated)	18,558	0	15,475
Japan	7,968	0	11,465
Indonesia	3,986	0	9,740
Papua New Guinea	11,672	0	7,309
Palau	7,927	0	3,864
Singapore	3,142	0	3,073
United States	6,246	0	2,590
Korea, Republic of	16,708	0	2,441
China (Peoples Rep)	729	0	2,387
Mexico	0	0	2,252
Hong Kong	1,106	0	1,974
Solomon Islands	565	0	1,093
New Zealand	259	0	777
Kiribati	0	0	732
Norway	160	0	371
Other	4,150	0	1,351
World	83,184	0	66,890

FISHERY PRODUCTS

Source: United Nations Statistics Division

Source: United Nations Statistics Division

**TABLE D. SUMMARY OF FOOD & FOOD PREPARATION IMPORTS
FROM THE U.S.**

Philippines Imports (In Millions of Dollars)	Imports from the World			Imports from the U.S. ^{1/}			U.S. Market Share		
	1999	2000	2001 ^{2/}	1999	2000	2001 ^{2/}	1999	2000	2001
FOOD AND FOOD PREPARATIONS	2,012	1,965	1,057	554	567	341	0.28	0.29	0.32
PROCESSED FOODS	1,116	1,231	668	273	289	171	0.24	0.23	0.26
FRESH FOODS	821	677	372	276	267	166	0.34	0.40	0.45
MARINE PRODUCTS	74	56	15	5	10	3	0.07	0.19	0.19

Source: Philippine Department of Trade and Industry

Footnotes

1/ Figures do not include Hawaii and Alaska.

2/ Latest available data for year 2001 is from January - June only.